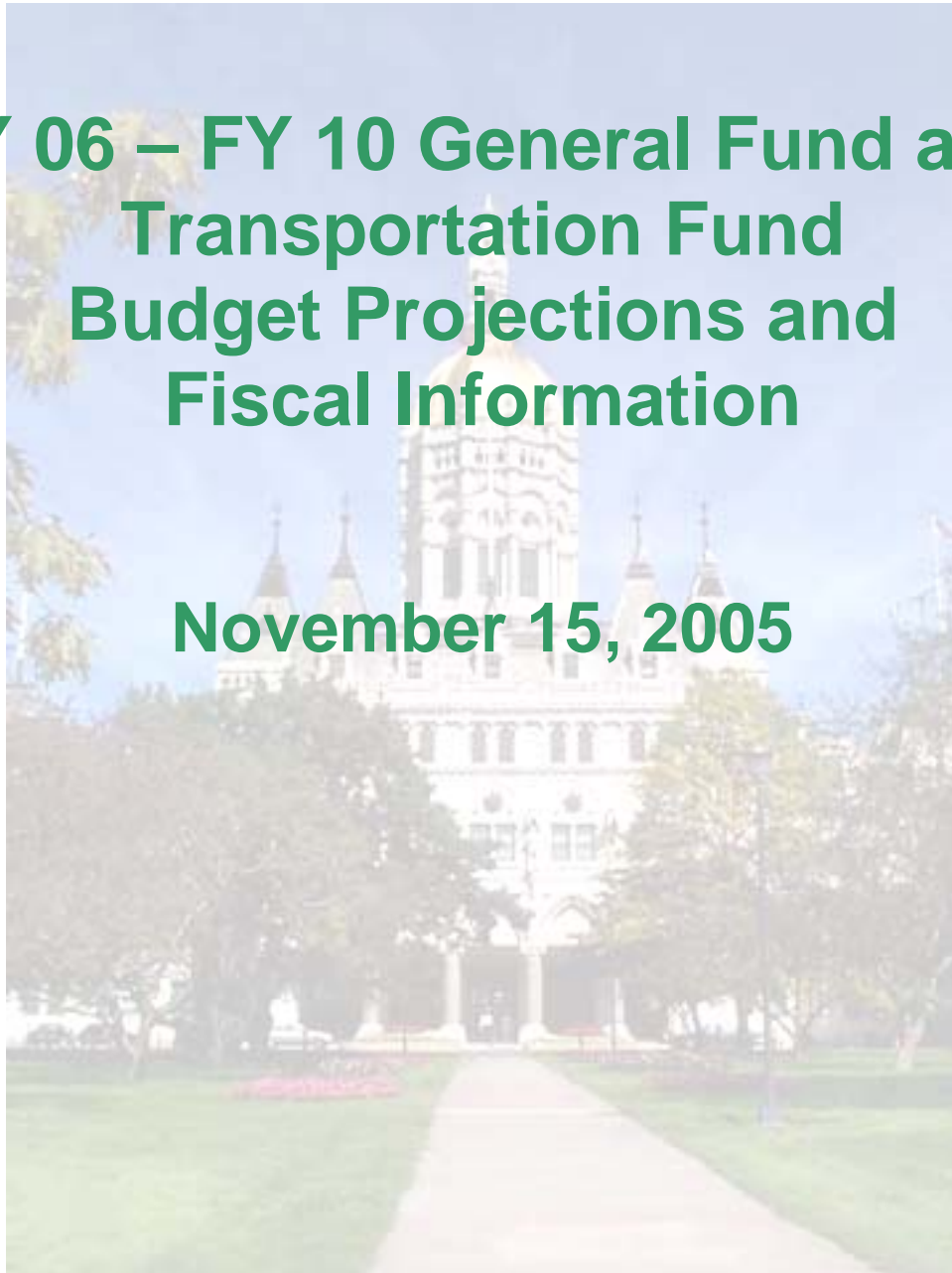


# Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS

## **FY 06 – FY 10 General Fund and Transportation Fund Budget Projections and Fiscal Information**

**November 15, 2005**



## Report Highlights

- **FY 06 General Fund surplus** is projected at **\$524.5 million**. See [pages 1 – 7](#) for details.
- **FY 07 General Fund surplus** is projected at **\$497 million**, pending further review of revenues and technical current services expenditure changes including potential cost/caseload adjustments, costs associated with collective bargaining contracts which may be approved and the need to increase FY 07 appropriations to reflect FY 06 deficiency needs rolled forward into FY 07.
- **General Fund current services shortfalls** are projected for **FY 08 (\$158 million)**, **FY 09 (\$241.8 million)** and **FY 10 (\$340.5 million)**. See [pages 14 - 15](#) for details.
- **FY 06 Transportation Fund operating surplus** is projected at \$8.4 million (\$4.8 million higher than budgeted), which increases the cumulative surplus to \$139.9 million. The higher surplus projection reflects revenue adjustments and deficiency requirements. See [pages 16 - 19](#) for details.
- **Out year projections indicate that the Transportation Fund will continue to experience operating surpluses each year, which will increase the cumulative balance in the fund to \$211.2 million in FY 10.** This is attributable to the combined effects of growth rates in revenues accelerating faster than the anticipated growth in expenditures.

**Preliminary General Fund Budget Projections**  
**FY 06 through FY 10**  
**as of November 15, 2005**

	FY 04	FY 05	FY 06		FY 07		FY 08	FY 09	FY 10
<b>Budget Overview:</b>									
	Surplus Estimate <u>FY 04</u>	Surplus Estimate <u>FY 05</u>	OFA Estimate as of Budget Passage 6/7/05 <u>FY 06</u>	OFA Revised Estimate 11/15/05 <u>FY 06</u>	OFA Estimate as of Budget Passage 6/7/05 <u>FY 07</u>	OFA Revised Estimate 11/15/05 <u>FY 07</u>	OFA Current Services Estimate 11/15/05 <u>FY 08</u>	OFA Current Services Estimate 11/15/05 <u>FY 09</u>	OFA Current Services Estimate 11/15/05 <u>FY 10</u>
Revenues	-	-	14,133.7	14,657.0	14,748.5	15,266.4	15,702.0	16,229.0	16,803.0
Expenditures	-	-	14,131.7	14,132.5	14,745.2	14,769.4	15,860.0	16,470.8	17,143.5
<b>Balance</b>	<b>302.2</b>	<b>303.4</b>	<b>2.0</b>	<b>524.5</b>	<b>3.3</b>	<b>497.0</b>	<b>(158.0)</b>	<b>(241.8)</b>	<b>(340.5)</b>
Maximum Allowable in Budget Reserve (Rainy Day) Fund	10.0% maximum	1,413.2							
Potential BRF Deposit	<u>4.3% funded</u>	<u>605.6</u>							
<b>Extent to Which BRF Not Fully Funded</b>	<b>5.7% unfunded</b>	<b>807.6</b>							
<b>Spending Cap Comparisons (All Funds):</b>									
Amount Total Appropriations (Under) Over Cap (assuming that the legislature will appropriate up to the allowed expenditure limit in FY 06 and FY 07 and that the appropriation will not exceed allowed expenditures in FY 08 and FY 09)			(24.4)	(19.4)	(10.4)	(6.8)	266.4	135.1	12.4
<b>Reasons for FY 08, FY 09 &amp; FY 10 Shortfalls:</b>									
<b>FY 08 - Unavailable One-Time Revenues (General Fund)</b>							53.0	-	-
<b>General Fund Growth Rates (Adjusted):</b>									
Revenue							3.7%	3.6%	3.2%
Expenditures							5.6%	3.9%	4.1%

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# General Fund and Transportation Fund Budget Projections (as of November 15, 2005)

## I. FY 06 General Fund

Our projections for the fiscal year ending June 30, 2006 indicate a **potential surplus of \$524.5 million** (which represents 3.7% of the budget). This surplus assumes that in addition to the originally budgeted surplus of \$2 million, **estimated revenues will be \$523.3 higher than budgeted and estimated expenditures will be \$0.8 million higher than net appropriations.** While the projected General Fund surplus is \$524.5 million, **this estimate may change if: 1) the level of currently estimated deficiencies grows, including additional state funding for emergency heating home assistance; 2) any arbitration awards or collective bargaining agreements are submitted and approved by the legislature or become effective in the absence of legislative rejection; or 3) revenues are adversely affected by any deterioration in economic conditions.**

### Revenues

The estimated \$523.3 million net increase in FY 06 General Fund revenue collections is due to projected increases of \$559.3 million in 6 revenue sources and \$36 million in revenue decreases. The increases are: (1) \$424.0 million in the Personal Income Tax, (2) \$60.1 million in the Oil Companies Tax, (3) \$32.5 million in the Real Estate Conveyance Tax, (4) \$17.7 million in the Insurance Companies Tax, (5) \$15.0 million in the Public Service Companies Tax, and (6) \$10.0 million in Investment Income. Of the \$36 million in revenue decreases, \$30 million is due to lower than anticipated Medicaid expenditures, which will result in lower federal reimbursements. The remaining \$6 million is due to a combination of relatively minor adjustments in various General Fund revenue sources.

The projected revenue increases are as follows:

(1) **Personal Income Tax** collections are anticipated to be \$424.0 million greater than originally projected due to:

- a) **Estimated Payments:** Anticipated 2005 income year collections have been increased by \$172.0 million. Revenue collections from third quarter payments<sup>1</sup> grew by approximately 31.0%, which exceeded original estimates by about \$40.0 million. This continues a strong trend observed in first and second quarter payments<sup>1</sup>. Based on this pattern, fourth quarter payments<sup>1</sup> are expected to be \$114.0 million greater than originally projected. The remaining \$18 million is the result of minor adjustments to actual FY 05 collections, which are rolled forward into FY 06.

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<sup>1</sup> Personal Income Tax estimated payments are due as follows: First quarter is due April 15<sup>th</sup>, Second quarter is due June 15<sup>th</sup>, Third quarter is due September 15<sup>th</sup> and Fourth quarter is due December 15<sup>th</sup>.

- b) **Final Payments:** 2005 income year final payment<sup>1</sup> revenue is anticipated to be \$165.0 million greater than projected. An examination of historical collections indicates that estimated payments equal about 60% of total non-wage payments and final payments make up the remaining 40%. Therefore, since estimated payments are anticipated to be higher than initial forecasts, final payments have been increased to maintain this historic relationship.
- c) **Withholding Payments:** Anticipated collections from withholding on wages and salaries have been increased by \$87.0 million. Since the Finance, Revenue and Bonding Committee adopted revenue estimates for FY 06 and FY 07, actual collections have performed better than anticipated. Revenue from withholding for the last six months has grown by roughly 7.5% compared to the anticipated 5.0% growth rate. The revised estimate assumes that growth rate in collections for the remainder of the fiscal year will be 6.0%.

(2) **Oil Companies Tax** collections are anticipated to be \$60.1 million greater than projected. Third quarter collections (July through September) were \$69.1 million, which was the largest quarterly amount ever collected for this tax<sup>2</sup>. This jump was mainly due to the economic disruption caused by Hurricanes Katrina and Rita, which caused crude oil prices to hover around \$70/bbl and pushed gasoline prices to over \$3.00/gallon. OFA's estimate for the remainder of the fiscal year assumes that oil and gasoline prices will be 25% higher than last year.

(3) **Real Estate Conveyance Tax** collections are anticipated to be \$32.5 million higher than expected. The FY 06 budget estimate assumed that collections would decline by 10% as a result of higher mortgage rates coupled with a slow down in housing price growth in some areas. However, revenue collection data reflects a 21.1% increase between June and October 2005 compared to the same period last year. OFA's revised estimate now assumes that collections for the remainder of 2005 will match last year's total and that a real estate market slowdown will not occur until beginning of 2006.

(4) **Insurance Companies** collections are anticipated to be \$17.7 million greater than originally projected. Year-to-date collections are ahead of our target estimates by \$7.0 million. This continues a trend of robust collections that began in January.

(5) **Public Service Companies** collections are anticipated to be \$15.0 million greater than originally projected. The revised estimate reflects robust collections during the past two quarters. Collections during this period were about \$12.0 million higher than anticipated.

(6) **Investment Income** has been increased by \$10.0 million based on stronger than anticipated investment income. The increase reflects: (1) the positive cash position of the Short Term Investment Fund (STIF) due to the FY 06 projected budget surplus and (2) the continuing positive impact of the Federal Reserve Bank's interest rate increases on the rate of return for STIF.

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<sup>1</sup> Personal Income Tax final payments are due April 15<sup>th</sup>.

<sup>2</sup> The figures were adjusted to remove the effect of tax rate changes.

## Expenditures

The \$0.8 million reduction in expenditures is largely attributable to \$65 million in lapse (savings) increases offset by \$38.8 million in deficiency needs and \$27 million in other miscellaneous expenditure requirements.

- **Budgeted Lapses**

Lapses anticipated in the budget total \$105.4 million and given the amount of unallocated lapse already identified, our surplus projection assumes that these savings will be achieved and perhaps exceeded by \$65 million. The \$105.4 million budgeted savings includes: \$79.4 million in unallocated budgeted lapses; \$25 million in Personal Services (PS) and Other Expenses (OE) holdbacks; \$1 million from centralizing business operations. The Office of Policy and Management has reduced agency allotments to reflect the imposition of PS and OE holdbacks.

- **Major Unallocated Lapses**

So far, we have identified approximately \$116.7 million in unallocated lapses or \$37.3 million more than the \$79.4 million unallocated lapse anticipated in the budget. Two accounts compose \$109.9 million of the \$116.7 million in identified lapses, the reasons for which are described below. Given that appreciably more than the budgeted unallocated lapse has been identified, we have increased the FY 06 unallocated lapse projection by \$65 million to a total of \$144.4 million assuming that additional lapses will be realized through the end of the year.

### **Unallocated Lapses** **(figures in \$ millions)**

Department of Social Services	69.9
Debt Service	<u>40.0</u>
Total – Significant Identified Lapsing Appropriations	
Other Identified Lapses (less than \$2 million each)	<u>6.8</u>
Total – All Identified Lapses	116.7
Increase in Projected Lapse Above Amount Already Identified	<u>27.7</u>
Total – Projected Unallocated Lapses	144.4

**Department of Social Services** – The department has a projected lapse of \$69.9 million for FY 06, which represents 1.6% of its available funds. This lapse is primarily in two accounts. First, the Medicaid account is projected to lapse \$60 million. Through the first three months, it appears that the long term care portion of the Medicaid budget is below what was assumed in the FY 06 appropriation. Although the delay in the application of the FY 06 rate increase (subject to federal approval of the Medicaid plan amendment for the nursing home provider tax) makes

early projections difficult, it appears that nursing home bed days are somewhat lower than initial projections.

The second account experiencing a significant lapse is Temporary Family Assistance. The caseload in this program has continued to decline through the first three months of the fiscal year. The appropriation assumed an average FY 06 monthly caseload of 24,200. However, due the continued decline, the average caseload is now projected to be 23,018. This results in a projected lapse of \$10.3 million.

**Debt Service** - The projected lapse of \$40 million in the General Fund debt service account is composed of: (1) \$22 million in savings due to changes in the issuance schedule and lower than anticipated interest rates, (2) \$14.5 million in premiums received on General Obligation (GO) bonds, (3) \$3.0 million in savings from the refunding of previously issued bonds, and (3) \$0.5 million in savings from a variety of other sources such as arbitrage rebate payments, rebate fees and trustee fees. (Note that bond purchasers pay a premium to receive a higher interest rate than the one at which the bonds would otherwise have sold.)

- **Deficiencies**

The \$65 million lapse increase is offset by \$38.8 million in projected deficiencies. These net deficiencies are occurring within the Office of Policy and Management (\$15.5 million); Department of Public Safety (\$7.4 million); Department of Correction (\$7.4 million), Department of Children and Families (\$5.9 million), the Department of Mental Health and Addiction Services (\$1.6 million); and the Public Defender Services Commission (\$1 million). Please see the explanations for all FY 06 projected deficiencies which begin on [page 8](#).

Also, projected payments for two non-budgeted accounts are factored in: Adjudicated Claims of \$7 million and Refunds of Escheated Property at \$17 million. Our projection includes the additional \$3 million appropriation for Emergency Heating Home Assistance in accordance with PA 05-2, October 25 Special Session.

It should be noted that PA 05-2, SB 2100, October 25 Special Session (AAC Emergency Home Heating Assistance) is estimated to cost an additional \$26.8 million in FY 06. A total of \$3 million is appropriated in the bill to meet a portion of these costs. The remaining cost (\$23.8 million) may be offset by additional federal funds provided for energy assistance. Should federal funds not be forthcoming to cover the entire cost of the expansion, the Department of Social Services (DSS) would have three options: 1) request the transfer of funds from another departmental program subject to approval of the Finance Advisory Committee; 2) seek a deficiency appropriation through the legislature; or 3) adjust benefit levels in the program. OFA's lapse estimates assume that federal funds will cover approximately \$10 million of the \$23.8 million and that the remaining approximate \$14 million will be transferred from other accounts within DSS to cover these costs.

OFA's lapse estimates also assume a transfer of \$2.2 million from Medicaid within DSS to cover the repeal of cost sharing requirements in the HUSKY B program in accordance with PA 05-1, HB 7701, November 2 Special Session.

- **State Employee Wage Increases**

The projected surplus for FY 06 could be lower if any additional arbitration awards or collective bargaining agreements (for which funding has not been specifically provided in the budget) are approved by the legislature or become effective in the absence of legislative rejection. Of the 32 contracts, 12 (covering approximately 50% of General Fund state employees) are settled/funded through the current biennium. One contract which is unsettled beginning in FY 05, 8 more in FY 06 and 11 more in FY 07 could require additional funding during the current biennium. Assuming a 1 year wage freeze for any unsettled contract which has not experienced a wage freeze in recent years, an additional approximate \$4 million in FY 06 and \$43 million in FY 07 may be required.

The extent to which agency budgets and the Reserve for Salary Adjustments account can absorb any of the increases which may occur during the current biennium is uncertain at this time. Some level of additional appropriation may be likely and will ultimately depend upon the number of unsettled contracts or arbitration awards submitted for approval prior to the end of the current biennium and whether any include wage concessions similar to those contained within agreements already approved.

- **Budget Reserve (Rainy Day) Fund Status**

It is anticipated that the State Comptroller will close the books on both FY 04 and FY 05 by December 31, 2005 and that the combined surplus from each of these years could approximate \$605.6 million. This figure would represent the amount deposited in the Budget Reserve (Rainy Day) Fund which previously contained a zero balance because the prior BRF total of \$594.7 million was exhausted when it was transferred to partially cover the \$817.1 million deficit in FY 02. The maximum allowable in the Budget Reserve Fund is 10% of the amount of the net General Fund appropriations for the fiscal year in progress. With net General Fund appropriations for FY 06 totaling \$14,131.7 million, the maximum allowable in the Budget Reserve Fund is \$1,413.2 million or \$807.6 million more than potentially deposited assuming that a full \$605.6 million surplus is realized from both of the prior fiscal years.

The \$594.7 million balance that remained in the Budget Reserve Fund in FY 01 was used to partially cover the \$817.1 million deficit in FY 02. The remaining FY 02 deficit balance of \$222.4 million was carried forward into FY 03 and financed with the issuance of Economic Recovery Notes during the fiscal year. It should be noted that PA 03-2 (the deficit mitigation act) increased the maximum allowable in the Budget Reserve Fund from 7.5% to 10% of the amount of the net General Fund appropriations for the fiscal year in progress. PA 02-118 had previously increased the maximum from 5% to 7.5%.

PA 03-1 (September 8 Special Session) authorized the State Treasurer to issue 5-year, tax exempt, general obligation Economic Recovery Notes to finance the \$96.6 million General Fund deficit in FY 03. The act provided that no principal would be paid during the fiscal year of issuance.

**FY 06 General Fund Summary  
as of November 15, 2005  
(in millions)**

	<b>Budget Plan [1]</b>	<b>Increases (Decreases)</b>	<b>Projected</b>
<b>Revenues</b>			
Taxes	\$ 10,455.4	\$ 545.2	\$ 11,000.6
Other Revenue	1,107.2	8.1	1,115.3
Other Sources	<u>2,571.1</u>	<u>(30.0)</u>	<u>2,541.1</u>
<b>Total Revenue</b>	<b>\$ 14,133.7</b>	<b>\$ 523.3</b>	<b>\$ 14,657.0</b>
<b>Appropriations</b>			
Original Appropriations - Gross	\$ 14,237.1	\$ -	\$ 14,237.1
<b>Plus:</b>			
Emergency Home Heating Assistance (PA 05-2 Sections 3 and 8, October 25 Special Session) [1]	-	3.0	3.0
Deficiency Requirements	-	38.8	38.8
Adjudicated Claims	-	7.0	7.0
Refunds of Escheated Property	-	17.0	17.0
<b>Less:</b>			
Lapses [2]	<u>(105.4)</u>	<u>(65.0)</u>	<u>(170.4)</u>
<b>Total Expenditures [3]</b>	<b>\$ 14,131.7</b>	<b>\$ 0.8</b>	<b>\$ 14,132.5</b>
<b>Surplus/(Deficit) from Operations for FY 06 [4]</b>	<b>\$ 2.0</b>	<b>\$ 522.5</b>	<b>\$ 524.5</b>

[1] It should be noted that PA 05-2, SB 2100, October 25 Special Session (AAC Emergency Home Heating Assistance) is estimated to cost an additional \$26.8 million in FY06. A total of \$3 million is appropriated in the act to meet a portion of these costs. The remaining cost (\$23.8 million) may be offset by additional federal funds provided for energy assistance. Should federal funds not be forthcoming to cover the entire cost of the expansion, the Department of Social Services (DSS) would have three options: 1) request the transfer of funds from another departmental program subject to approval of the Finance Advisory Committee; 2) seek a deficiency appropriation through the legislature; or 3) adjust benefit levels in the program. OFA's lapse estimates assume that federal funds will cover approximately \$10 million of the \$23.8 million and that the remaining approximate \$14 million will be transferred from other accounts within DSS to cover these costs.

[2] The breakdown for budgeted lapses is as follows:

unallocated budgeted lapses	\$ (79.4)	\$ (65.0)	\$ (144.4)
general PS and OE reductions (holdbacks)	(25.0)	-	(25.0)
Centralize Business Operations	<u>(1.0)</u>	<u>-</u>	<u>(1.0)</u>
<b>Total – Lapses Originally Budgeted</b>	<b>\$ (105.4)</b>	<b>\$ (65.0)</b>	<b>\$ (170.4)</b>

OFA's lapse estimates assume transfers of \$14 million from other accounts within the Department of Social Services (DSS) to cover the non-federal costs of expanded energy assistance in accordance with PA 05-2, October 25 Special Session and \$2.2 million from Medicaid within DSS to cover the repeal of cost sharing requirements in the HUSKY B program in accordance with PA 05-1, HB 7701, November 2 Special Session.

[3] Excludes expenditures from prior year carryforwards and appropriations from projected surplus.

[4] The projected surplus for FY 06 could be lower if any additional arbitration awards or collective bargaining agreements (for which funding has not been specifically provided in the budget) are approved by the legislature or become effective in the absence of legislative rejection. Of the 32 contracts, 12 (covering approximately 50% of General Fund state employees) are settled/funded through the current biennium. One contract which is unsettled beginning in FY 05, 8 more in FY 06 and 11 more in FY 07 could require additional funding during the current biennium. Assuming a 1 year wage freeze for any unsettled contract which has not experienced a wage freeze in recent years, an additional approximate \$4 million in FY 06 and \$43 million in FY 07 may be required.

The extent to which agency budgets and the Reserve for Salary Adjustments account can absorb any of the increases which may occur during the current biennium is uncertain at this time. Some level of additional appropriation may be likely and will ultimately depend upon the number of unsettled contracts or arbitration awards submitted for approval prior to the end of the current biennium and whether any include wage concessions similar to those contained within agreements already approved.

Note: It is anticipated that the State Comptroller will close the books on both FY 04 and FY 05 by December 31, 2005 and that the combined surplus from each of these years could approximate \$605.6 million. This figure would represent the amount deposited in the Budget Reserve (Rainy Day) Fund which previously contained a zero balance because the prior BRF total of \$594.7 million was exhausted when it was transferred to partially cover the \$817.1 million deficit in FY 02. The maximum allowable in the Budget Reserve Fund is 10% of the amount of the net General Fund appropriations for the fiscal year in progress. With net General Fund appropriations for FY 06 totaling \$14,131.7 million, the maximum allowable in the Budget Reserve Fund is \$1,413.2 million or \$807.6 million more than potentially deposited assuming that a full \$605.6 million surplus is realized from both of the prior fiscal years.

**FY 06 General Fund Revenue Estimates**  
**as of November 15, 2005**  
**(in thousands)**

	<u>Budget Plan</u>		OFA	<u>OFA Estimates</u>	
	Growth Rate {1}	FY 06 Estimate	Over(Under) Plan	Growth Rate {1}	FY 06 Estimate
<b>Taxes</b>					
Personal Income	5.2	\$5,786,000	\$424,000	13.5	\$6,210,000
Sales and Use	5.1	3,432,200	(16,200)	4.1	3,416,000
Corporations	(5.0)	646,300	8,300	(5.0)	654,600
Public Service Corporations	0.0	197,100	15,000	7.6	212,100
Inheritance and Estate	0.0	133,200	-	0.0	133,200
Insurance Companies	3.0	247,200	17,700	3.0	264,900
Cigarettes	(1.5)	266,000	3,900	(1.5)	269,900
Real Estate Conveyance	(10.0)	175,500	32,500	0.0	208,000
Oil Companies	(9.1)	132,300	60,100	25.1	192,400
Alcoholic Beverages	0.0	44,000	200	0.0	44,200
Admissions, Dues and Cabaret	2.0	32,600	(300)	2.0	32,300
Miscellaneous	0.0	144,000	-	(13.7)	144,000
<b>Total Taxes</b>		<b>11,236,400</b>	<b>545,200</b>		<b>11,781,600</b>
Refunds of Taxes		(766,000)	-		(766,000)
R & D Credit Exchange		(15,000)	-		(15,000)
<b>Taxes Less Refunds</b>		<b>10,455,400</b>	<b>545,200</b>		<b>11,000,600</b>
<b>Other Revenue</b>					
Transfer Special Revenue		277,500	-		277,500
Indian Gaming Payments		430,000	(5,000)		425,000
Licenses, Permits and Fees		147,300	3,100		150,400
Sales of Commodities and Services		35,000	-		35,000
Rentals, Fines and Escheats		70,000	-		70,000
Investment Income		23,000	10,000		33,000
Miscellaneous		125,000	-		125,000
Refunds of Payments		(600)	-		(600)
<b>Total Other Revenue</b>		<b>1,107,200</b>	<b>8,100</b>		<b>1,115,300</b>
<b>Other Sources</b>					
Federal Grants		2,601,400	(30,000)		2,571,400
Transfer to the Resources of the General Fund		(41,000)	-		(41,000)
Transfer from Tobacco Settlement Fund		97,000	-		97,000
Transfer to Other Funds		(86,300)	-		(86,300)
<b>Total Other Sources</b>		<b>2,571,100</b>	<b>(30,000)</b>		<b>2,541,100</b>
<b>Total Revenue</b>		<b><u>\$14,133,700</u></b>	<b><u>\$523,300</u></b>		<b><u>\$14,657,000</u></b>

{1} Tax growth rates reflect adjustments for rate and base changes.

**Projected FY 06 General Fund Deficiencies  
as of November 15, 2005**

**Note:** The projected OPM deficiencies indicated in the first block of each table below were reported on October 20, 2005.

**Office of Policy and Management – Energy Contingency**

<b>OPM Net Deficiency \$(23,500,000)</b>	<b>OFA Net Deficiency \$(15,500,000)</b>	<b>Less: Available Funds \$0</b>	<b>OFA Remaining Deficiency \$(15,500,000)</b>
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The Office of Policy and Management projects a General Fund and Transportation Fund deficiency of \$23.5 million in the Energy Contingency account, whereas OFA projects a net deficiency of \$15.5 million. In FY 05, General Fund and Transportation expenditures for all energy related costs (electricity, natural gas, motor vehicle fuel oil) were \$75.49 million, which was above budgeted levels and necessitated an FY 05 deficiency appropriation of \$10 million. In anticipation of continued volatility of energy prices in FY 06, an \$8 million appropriation was made to the Energy Contingency account. OFA assumes that the additional \$8 million appropriation will mitigate the OPM anticipated deficiency.

The actual level of deficiency is contingent on the rate of increase of these costs, particularly among natural gas and district heating which is anticipated to increase between 9.5% and 130.0%.

**Department of Public Safety**

<b>OPM Net Deficiency \$(2,400,000)</b>	<b>OFA Net Deficiency \$(7,400,000)</b>	<b>Less: Available Funds \$1,448,209</b>	<b>OFA Remaining Deficiency \$(5,951,791)</b>
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The Department of Public Safety has a projected net deficiency of \$7.4 million, which represents 5.4% of its FY 06 appropriation of \$137.8 million. This assumes that a Personal Services holdback of \$804,764 and an Other Expenses holdback of \$643,445 are not released. If the holdbacks are released, an estimated remaining deficiency of \$6 million would result.

The \$7.4 million net deficiency occurs in three areas: Personal Services (\$2.1 million), Other Expenses (\$4.8 million) and Workers' Compensation (\$.5 million).

The majority of the \$2.1 million Personal Services deficiency is due to trooper overtime expenses. The budgeted level of overtime for FY 06 is \$15 million. The shortfall relates to the Department being unable to achieve the budgeted level. Projected overtime costs for FY 06 will be at least \$2.1 million higher than the appropriated amount.

The \$4.8 million OE deficiency is attributable to three main areas: operating and maintaining databases related to CJIS (Criminal Justice Information System), fuel costs, and property management costs. Approximately \$1 million of the OE deficiency is related to operational costs associated with the AFIS and COLLECT database systems. In addition, fuel costs are projected to be \$1.3 million higher.

The deficiency in Workers' Compensation Claims relates to higher than budgeted expenditures in claims and payouts related to agency staff.

### **Department of Mental Health and Addiction Services**

<b>OPM Net Deficiency \$(800,000)</b>	<b>OFA Net Deficiency \$(1,600,000)</b>	<b>Less: Available Funds \$2,550,268</b>	<b>OFA Remaining Lapse \$950,268</b>
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The Department of Mental Health and Addiction Services has a projected net deficiency of \$1.6 million, which represents 0.3% of its FY 06 appropriation of \$478 million. This assumes that a Personal Services holdback of \$1,732,153 and an Other Expenses holdback of \$818,115 are not released. If the holdbacks were released, an estimated remaining lapse of \$1 million would result.

DMHAS projected deficiency of \$1.6 million is primarily in three accounts. The Other Expenses account has a deficiency of \$0.8 million due to repair and maintenance expenses and costs related to the Waterbury move. (It should be noted that \$1.1 million in increased fuel costs at state facilities is anticipated to be funded through the OPM – Energy Contingency account.) The Professional Services account has a projected deficiency of \$0.6 million due to the utilization of temporary agency nurses. The Behavioral Health Medications account has a projected deficiency of \$0.2 million due to the continued increasing cost of drugs.

### **Department of Correction**

<b>OPM Net Deficiency \$(2,800,000)</b>	<b>OFA Net Deficiency \$(7,400,000)</b>	<b>Less: Available Funds \$4,661,411</b>	<b>OFA Remaining Deficiency \$(2,738,589)</b>
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The Department of Correction has a projected net deficiency of \$7.4 million, which represents 1.3% of its FY 06 appropriation of \$577.8 million. This assumes that a Personal Services holdback of \$2,840,452 and an Other Expenses holdback of \$1,820,959 are not released. If the holdbacks were released, an estimated remaining deficiency of \$2.7 million would result.

The \$7.4 million deficiency occurs in three areas: Personal Services (\$4.5 million), Other Expenses (\$2.7 million), and Inmate Medical Services (\$.2 million).

The majority of the PS deficiency is due to overtime expenses. Overtime costs in FY 06 are projected at \$53 million, which although less than the \$55 million spent in FY 05 are less than budgeted and significantly higher than the FY 04 amount of \$43 million.

The shortfall in Other Expenses largely relates to higher than budgeted costs in the areas of food and beverages for inmates (\$1.3 million). The deficiency in food and beverages is attributed to the unrealized savings that resulted from the agency participating in the Department of Administrative Services (DAS) bulk purchasing program. In addition, the agency lost procurement discounts because of delayed payment, and various CORE related issues. DOC has also been unable to purchase various United States Department of Agriculture (USDA) staple goods at discount prices due to the impact of hurricane Katrina. The remainder of the shortfall in Other Expenses is related to higher than budgeted energy costs. It should be noted that it is anticipated that the shortfalls in electricity (\$.64 million) and natural gas and propane (\$1.3 million) will be funded through the OPM – Energy Contingency Account.

The shortfall in Inmate Medical Services relates to overtime costs for nurses, and increases in pharmaceutical expenses.

#### **Department of Children and Families**

<b>OPM Net Deficiency \$(0)</b>	<b>OFA Net Deficiency \$(5,940,000)</b>	<b>Less: Available Funds \$5,098,658</b>	<b>OFA Remaining Deficiency \$(841,342)</b>
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The Department of Children and Families has a projected net deficiency of \$5.9 million, which represents 0.8% of its FY 06 appropriation of \$726.2 million.

This assumes that projected lapses of \$1.5 million in the Board and Care for Children – Foster account and \$1.5 million in the Family Support Services account are made available via FAC transfer, but that heldback Personal Services dollars of \$3.8 million and an Other Expenses holdback of \$1.2 million are not released. If the PS and OE holdbacks are released, an estimated remaining deficiency of \$0.8 million would result.

Contributing to the \$5.9 million net deficiency (assuming the \$3.0 million FAC transfers) are shortfalls of:

- \$1.1 million (0.4% of the original budget) in Personal Services, primarily attributable to unexpected costs associated with supporting 6 durational social workers needed to allow the agency to maintain compliance with caseload standards set forth under an agreement with the federal court and increased employee overtime expenses.
- \$0.1 million (0.2% of the original budget) in Other Expenses, due to increased payments to the Department of Public Safety for foster and adoptive parent background checks.

*It should be noted that an additional \$2.2 million shortfall is anticipated under DCF's OE account due to unanticipated fuel/utility price increases. It is expected that these expenditures will be funded through the OPM – Energy Contingency account.*

- \$1.1 million (12.7% of the original budget) in the Workers' Compensation Claims account, based upon trends to date.
- \$0.7 million in the Emergency Needs account (71.3% of the original budget) and \$3.2 million (31.6% of the original budget) in the Individualized Family Supports accounts, attributable to payments in excess of budgeted amounts for emergency needs and non-categorical services.

The Emergency Needs account was established in FY 05 per an agreement between the parties to the Juan F. Consent Decree. Payments are made from the account to meet urgent needs of families whose children face removal unless emergency situations are rectified. Types of expenses that are supported with these dollars include, but are not limited to: Assistance with rent to avert evictions; unexpected car repair bills to ensure continued parental employment; and purchasing food or medicine when emergency situations present.

Per department policy, payments may be made for exceptional non-categorical services and/or goods that are (a) intended to enhance the stability of a family in order to achieve family preservation and reunification goals; (b) individualized; (c) not to supplant existing services; and (d) utilized to complement and support existing family and community involvement as well as case planning efforts. The population which may be served includes children and youth with serious emotional disturbance (SED), as well as those who are committed as delinquents.

Examples of services which may be funded include, but are not limited to: Mentoring; specialized day care; personal assistant; enhanced foster care; targeted case management; therapeutic recreation; in-home support; respite; home health aide; multi-systemic therapy, outreach and tracking and multi-dimensional family therapy.

- \$0.5 million (0.9% of the original budget) in the Board and Care for Children - Adoption account based on current caseload trends. Budgeted funds anticipated average monthly expenditures of \$4.88 million. Current projections indicate that expenditures will average \$4.92 million.
- \$2.2 million (1.4 % of the original budget) in the Board and Care for Children – Residential account, due primarily to the development of therapeutic group homes beyond budgeted levels per agreement of the Juan F. Transition Task Force.

## Public Defender Services Commission

<b>OPM Net Deficiency \$(1,067,000)</b>	<b>OFA Net Deficiency \$(1,000,000)</b>	<b>Less: Available Funds \$241,736</b>	<b>OFA Remaining Deficiency \$(758,264)</b>
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The Public Defender Services Commission has a projected, net deficiency of \$1 million, which represents 2.7% of its FY 06 General Fund appropriation of \$37.1 million. This assumes that a Personal Services holdback of \$207,475 and an Other Expenses holdback of \$34,261 are not released. If the holdbacks are released, an estimated deficiency of \$758,264 would result.

This \$1 million net deficiency results from anticipated shortfalls in the Special Public Defenders – Non-Contractual (\$800,000) and Expert Witness (\$300,000) accounts less potential savings of \$100,000 in the agency's Personal Services account subsequently transferred to the deficient accounts. Approximately one-half of these deficiencies is attributable to obligations incurred in FY 05 and carried forward into FY 06.

The deficiency in the Special Public Defenders – Non-Contractual account is due to greater-than-budgeted case assignments and billed hours. These Special Public Defenders represent clients in about 2,000 new felony, habeas and appellate matters each year. They are typically assigned to these cases when it is determined that a conflict of interest prohibits representation by an Assistant Public Defender employed by the state.

The deficiency in the Expert Witness account is due to increases in the rates that experts charge to provide testimony and the frequency of their use by public defenders. In particular, there is an increasing volume of requests for experts from Special Public Defenders involved in Habeas and Capital cases.

**Summary of General Fund Lapsing Appropriations  
and Other Reductions for FY 06  
as of November 15, 2005  
(figures in millions)**

**Status of Budgeted Lapses:**

Department of Social Services	\$ 69.9	
Debt Service	<u>40.0</u>	
Total - Significant Identified Lapsing Appropriations	\$ 109.9	
Other Identified Lapses (less than \$2 million each)	<u>6.8</u>	
Total – All Identified Lapses	116.7	
Increase in Projected Lapse Given Amount Already Identified	<u>27.7</u>	
Subtotal		\$ 144.4

**Other Reductions:**

Personal Services Reduction (holdback)	14.0	
Other Expenses Reduction (holdback)	11.0	
Centralize Business Operations	<u>1.0</u>	
Subtotal		\$ <u>26.0</u>

<b><i>Total Projected Lapses Anticipated in the Budget</i></b>	<b><i>\$ 170.4</i></b>
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## **II. FY 07 through FY 10 General Fund Budget Projections**

Our current services analysis indicates a potential General Fund surplus in FY 07 of \$497 million and shortfalls of \$158 million in FY 08, \$241.8 million in FY 09, \$340.5 million in FY 10. Current services expenditures would be below the spending cap by \$6.8 million in FY 07, but would exceed the spending cap in the remaining three years by \$266.4 million in FY 08, \$135.1 million in FY 09 and \$12.4 million in FY 10. These estimates assume that the legislature will appropriate up to the allowed expenditure limit in FY 06 and FY 07 and that the appropriation will not exceed allowed expenditures in FY 08 and FY 09.

The FY 07 surplus assumes continued revenue growth offset by modest additional current services expenditure requirements. The FY 08 through FY 10 shortfalls are attributable to: 1) unavailable one-time revenues amounting to \$53 million in FY 08; and 2) expenditure growth which is anticipated to exceed revenue growth.

The projections in this report are based on present law, existing policy commitments, estimated caseload and workload requirements. The FY 07 through FY 10 figures are also based on using FY 06 as the baseline for revenue and expenditure projections and assume modest growth in the state and national economy. These estimates show the direction of revenues and spending if current laws and policies remain unchanged. They are not forecasts of what will actually occur, since policymakers will likely seek to alter current priorities.

### **FY 07 through FY 10 Revenues**

The FY 07 revised revenue projection of \$15,266.4 million reflects an increase of \$517.9 million from the original budget projections. The revised FY 07 estimates largely incorporate the changes made to the FY 06 estimates and assume that the economy will continue to remain strong throughout FY 07.

The projections for FY 08 through FY 10 were developed using the revised FY 07 estimates adjusted for one-time revenue changes. They assume that annual revenue collections will grow between 3.5% and 4.0% and that the state will experience modest economic growth throughout this period.

### **FY 07 through FY 10 Expenditures**

The FY 07 General Fund expenditure projection of \$14,769.4 million represents a \$636.9 million or 3.5% (adjusted) increase over FY 06, the FY 08 projection of \$15,860 million represents a \$1,090.6 million or 5.6% (adjusted) increase over FY 07, the FY 09 projection of \$16,470.8 million represents a \$610.8 million or 3.9% increase over FY 08 and the FY 10 projection of \$17,143.5 million represents a \$672.7 million or 4.1% increase over FY 09.

These projections assume technical current services changes including potential cost/caseload adjustments, costs associated with collective bargaining contracts which may be approved and the need to increase future year appropriations to reflect FY 06 deficiency needs rolled forward into the out-years.

These projections have been developed by applying inflationary guidelines and other specific growth factors to the FY 06 and each subsequent year's estimated expenditure level. The guidelines utilized assume a one year wage freeze for unsettled contracts and reflect 4.5% salary increases for state employees in subsequent years (which includes 3% for cost of living adjustments and 1.5% for Annual Increments) and 2% in each year for other accounts; however, each major appropriated account has been examined individually and adjusted as necessary to reflect amounts anticipated to be required based on present law and caseload projections.

Several accounts with major FY 07 through FY 10 increases include:

<b>Major General Fund Increases for FY 07 through FY 10 as of November 15, 2005 (figures in \$ millions)</b>				
	<b>FY 07</b>	<b>FY 08</b>	<b>FY 09</b>	<b>FY 10</b>
DSS – Medicaid	93.1	211.4	225.1	239.7
Debt Service	114.9	175.6	53.5	76.2
State Employee Health Service Cost	79.1	18.9	19.6	20.3
Teachers' Retirement Contributions	10.5	196.1	21.6	22.8
Ongoing Items Funded through FY 05	-	165.5	(66.8)	(17.6)
Anticipated Surplus Generally Accepted Accounting Principles (GAAP)	-	<u>39.0</u>	<u>60.0</u>	-
Total – Major General Fund Increases	297.6	806.5	313.0	341.4

The increases for Teachers' Retirement Contributions indicated above allow 100% funding of normal cost plus 40-year amortization of unfunded liabilities in accordance with current law.

Implementation of Generally Accepted Accounting Principles (GAAP) is scheduled to begin on July 1, 2007 under current law. Our projections include the impact of the conversion to GAAP in FY 08, which adds approximately \$39 million to the budget on a net expenditure basis in that year and annualizes to approximately \$99 million including amortization of the GAAP deficit in each of the following 15 fiscal years. The Comptroller's monthly report dated November 1, 2005 indicates that the unaudited cumulative General Fund GAAP deficit as of June 30, 2004 was \$900.6 million and that the figure is anticipated to increase in FY 05.

### **III. Transportation Fund**

#### **FY 06**

The FY 06 Special Transportation Fund (STF) operating surplus is projected to increase from \$3.6 million to \$8.4 million. This \$4.8 million increase reflects increased revenues of \$8.5 million which is partially offset by increased expenditures of \$3.7 million. Exhibits I and II show that the revised un-audited cumulative surplus for the STF at the end of FY 06 will be \$139.9 million.

The \$8.5 million increase in revenues is a combination of: (1) higher than expected year-to-date collections, (2) actual FY 05 collections rolled forward to FY 06 and (3) the effect of 2005 legislation that was not completely taken into account in the estimates adopted by the Finance, Revenue, and Bonding Committee.

The \$3.7 million increase in expenditures is due to a projected deficiency in the snow and ice removal account. The shortfall is expected to result from: (1) higher than anticipated prices for materials such as sand and salt and (2) replenishment of DOT's reserves of these materials, which were depleted by the severity of last winter.

#### **FY 07 through FY 10**

The FY 07 STF's operating surplus is projected to be \$8.4 million, which is a slight increase over the adopted budget. The change reflects the effect of 2005 legislation that was not completely taken into account in the estimates adopted by the Finance, Revenue, and Bonding Committee.

The STF out-year projections (FY 08 through FY 10) show that the fund will continue to have annual operating surpluses, with annual revenues and expenditures both growing by about 3.1% (see schedule on [page 19](#).) The estimates reflect additional costs of \$1.1 million per year beginning in FY 08 for DMV to implement the vision screening program.

**FY 06 Transportation Fund Summary**  
**as of November 15, 2005**  
(in millions)

	<b>Budget Plan</b>	<b>Increase/ (Decrease)</b>	<b>Revised Estimates</b>
<b>Revenues</b>			
Taxes	595.9	2.8	598.7
Other Revenues	390.3	5.7	396.0
<b>Total Revenue</b>	<b>986.2</b>	<b>8.5</b>	<b>994.7</b>
<b>Appropriations</b>			
Original Appropriations - Gross	993.6	0.0	993.6
<b>Plus:</b>			
Deficiency requirements	0.0	3.7	3.7
<b>Less:</b>			
Lapses:			
Debt Service	(4.5)	0.0	(4.5)
Unallocated	(6.5)	0.0	(6.5)
Total Lapses	(11.0)	0.0	(11.0)
<b>Total Expenditures</b>	<b>982.6</b>	<b>3.7</b>	<b>986.3</b>
<b>Surplus/(Deficit) from Operations FY 06</b>	<b>3.6</b>	<b>4.8</b>	<b>8.4</b>
<b>Plus: Cumulative Surplus as of June 30, 2005</b>	<b>126.1</b>	<b>5.4</b>	<b>131.5</b>
<b>Projected Fund Balance as of June 30, 2006</b>	<b>129.7</b>	<b>10.2</b>	<b>139.9</b>

**FY 06 Transportation Fund Revenue Estimates**  
**as of November 15, 2005**  
**(in millions)**

	<b>FY 06 Budget Plan</b>	<b>OFA Over/(Under) Budget Plan</b>	<b>FY 06 OFA Estimates</b>
<b>Taxes</b>			
Motor Fuels	500.0	(9.4)	490.6
Petroleum Products Tax	28.5	15.0	43.5
Sales Tax - DMV	76.0	(3.0)	73.0
Refunds of Taxes	(8.6)	0.2	(8.4)
<b>Total Taxes Less Refunds</b>	<b>595.9</b>	<b>2.8</b>	<b>598.7</b>
<b>Other Sources</b>			
Motor Vehicles Receipts	230.0	9.0	239.0
License, Permits, and Fees	163.0	(6.0)	157.0
Interest Income	29.0	4.0	33.0
Transfers to Conservation Fund	(2.0)	(1.0)	(3.0)
Refunds of Payments	(2.8)	(0.3)	(3.1)
Transfers to Emissions fund	(1.6)	0.0	(1.6)
Transfers to TSB Sub account	(25.3)	0.0	(25.3)
<b>Total - Other Sources</b>	<b>390.3</b>	<b>5.7</b>	<b>396.0</b>
<b>Total Revenue</b>	<b>986.2</b>	<b>8.5</b>	<b>994.7</b>

**Transportation Fund Projections for FY 05 through FY 10  
as of November 15, 2005  
(in Millions)**

<b>Transportation Fund</b>	<b>FY 05</b>	<b>FY 06</b>	<b>FY 07</b>	<b>FY 08</b>	<b>FY 09</b>	<b>FY 10</b>
	Tentative	OFA estimates	OFA estimates			
<b>Beginning Balance as of July 1st</b>	<b>\$132.1</b>	<b>\$131.5</b>	<b>\$139.9</b>	<b>\$152.3</b>	<b>\$170.5</b>	<b>\$196.3</b>
<b>REVENUES</b>						
<b>Taxes</b>						
Motor Fuels Tax	481.8	490.6	497.7	504.9	512.2	519.6
Petroleum Products Tax	13.0	43.5	61.0	84.0	101.0	101.0
Sales Tax - DMV	69.7	73.0	75.0	77.0	79.0	80.0
Refund of Taxes	(8.3)	(8.4)	(8.6)	(8.7)	(8.9)	(9.0)
<b>Total - Taxes less Refunds</b>	<b>\$556.2</b>	<b>\$598.7</b>	<b>\$625.1</b>	<b>\$657.2</b>	<b>\$683.3</b>	<b>\$691.6</b>
<b>Other Revenue Sources</b>						
Motor Vehicle Receipts	233.9	239.0	246.2	253.6	261.2	269.0
License, Permits and Fees	155.0	157.0	159.0	161.0	163.0	165.0
Interest Income	32.7	33.0	34.0	35.0	35.0	35.0
Federal Grants (FTA)	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to Other Funds	(8.5)	(4.6)	(9.5)	(9.5)	(9.5)	(9.5)
Release from Debt Service Reserves	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total - Other Sources</b>	<b>\$413.1</b>	<b>\$424.4</b>	<b>\$429.7</b>	<b>\$440.1</b>	<b>\$449.7</b>	<b>\$459.5</b>
Less Refunds of Payments	(2.8)	(3.1)	(3.2)	(3.3)	(3.4)	(3.5)
Less Transfers to TSB Account (1)	(31.0)	(25.3)	(20.3)	(15.3)	(15.3)	(15.3)
<b>TOTAL REVENUE</b>	<b>\$935.5</b>	<b>\$994.7</b>	<b>\$1,031.3</b>	<b>\$1,078.7</b>	<b>\$1,114.3</b>	<b>\$1,132.3</b>
<b>EXPENDITURES</b>						
Debt Service	422.9	431.0	442.5	456.0	467.7	479.1
DOT Budgeted Expenses	380.1	402.4	412.9	430.2	443.3	455.0
DMV Budgeted Expenses	52.1	54.6	56.7	58.6	60.7	62.8
Other Budgeted Expenses	94.9	109.3	117.8	126.7	127.8	131.5
<b>Subtotal - Expenditures</b>	<b>\$950.0</b>	<b>\$997.3</b>	<b>\$1,029.9</b>	<b>\$1,071.5</b>	<b>\$1,099.5</b>	<b>\$1,128.4</b>
Less Unallocated Lapses	(13.9)	(11.0)	(11.0)	(11.0)	(11.0)	(11.0)
<b>TOTAL EXPENDITURES</b>	<b>\$936.1</b>	<b>\$986.3</b>	<b>\$1,018.9</b>	<b>\$1,060.5</b>	<b>\$1,088.5</b>	<b>\$1,117.4</b>
<b>OPERATING SURPLUS/(DEFICIT)</b>	<b>(\$0.6)</b>	<b>\$8.4</b>	<b>\$12.4</b>	<b>\$18.2</b>	<b>\$25.8</b>	<b>\$14.9</b>
<b>Ending Balance as of June 30th</b>	<b>\$131.5</b>	<b>\$139.9</b>	<b>\$152.3</b>	<b>\$170.5</b>	<b>\$196.3</b>	<b>\$211.2</b>
<b>DEBT SERVICE RATIO(2)</b>	<b>2.3</b>	<b>2.4</b>	<b>2.4</b>	<b>2.4</b>	<b>2.4</b>	<b>2.4</b>

(1) Incremental revenue from the various DMV fee changes allocated to the Transportation Strategy Board (TSB) and deposited in the TSB projects account.

(2) Pledged revenues for reserves required under the Indentures in an amount at least two (2) times the aggregate Principal and Interest Requirements on all outstanding Bonds and Notes.

## IV. Other Appropriated Funds Projected Revenues, Expenditures and Ending Balances for FY 06 through FY 10

	FY 06	FY 07	FY 08	FY 09	FY 10
<b>MASHANTUCKET PEQUOT AND MOHEGAN</b>					
<b>FUND [1]</b>					
Beginning Balance	0	50,000	100,000	100,000	100,000
Revenue	86,300,000	86,300,000	91,050,000	91,050,000	91,050,000
Expenditures	86,250,000	86,250,000	91,050,000	91,050,000	91,050,000
Ending Balance	50,000	100,000	100,000	100,000	100,000
[1] In FY 07 there is an additional General Fund appropriation of \$4.8 million for Mashantucket Pequot and Mohegan grants, for a total of \$91.05 million for grants. It is anticipated that this will be the current services level for the out-years.					
<b>REGIONAL MARKET OPERATION FUND</b>					
Beginning Balance	747,808	840,565	939,661	1,038,866	1,086,017
Revenue	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Expenditures	907,243	900,904	900,795	952,849	921,905
Ending Balance	840,565	939,661	1,038,866	1,086,017	1,164,112
<b>BANKING FUND</b>					
Beginning Balance	36,230,366	36,278,110	42,132,270	42,162,839	46,638,486
Revenue	16,800,000	23,300,000	18,200,000	23,400,000	19,800,000
Expenditures	16,752,256	17,445,840	18,169,431	18,924,353	19,711,993
Ending Balance	36,278,110	42,132,270	42,162,839	46,638,486	46,726,493
<b>INSURANCE FUND</b>					
Beginning Balance	6,962,172	7,137,619	7,229,684	7,400,319	7,609,798
Revenue	21,700,000	22,500,000	23,500,000	24,500,000	25,500,000
Expenditures	21,524,553	22,407,935	23,329,365	24,290,521	25,293,156
Ending Balance	7,137,619	7,229,684	7,400,319	7,609,798	7,816,642

	FY 06	FY 07	FY 08	FY 09	FY 10
<b>CONSUMER COUNSEL AND PUBLIC UTILITY CONTROL FUND</b>					
Beginning Balance	6,150,270	9,238,137	9,293,536	9,569,035	9,530,542
Revenue	20,787,867	18,500,000	19,500,000	20,000,000	21,000,000
Expenditures	17,700,000	18,444,601	19,224,501	20,038,493	20,888,093
Ending Balance	9,238,137	9,293,536	9,569,035	9,530,542	9,642,448
<b>WORKERS' COMPENSATION FUND</b>					
Beginning Balance	11,940,967	12,667,466	12,760,554	12,981,742	13,199,224
Revenue	20,800,000	20,500,000	21,400,000	22,200,000	23,100,000
Expenditures	20,073,501	20,406,912	21,178,812	21,982,518	22,819,405
Ending Balance	12,667,466	12,760,554	12,981,742	13,199,224	13,479,819
<b>CRIMINAL INJURIES COMPENSATION FUND</b>					
Beginning Balance	4,604,203	4,679,203	4,754,203	4,829,203	4,904,203
Revenue	2,100,000	2,100,000	2,100,000	2,100,000	2,100,000
Expenditures	2,025,000	2,025,000	2,025,000	2,025,000	2,025,000
Ending Balance	4,679,203	4,754,203	4,829,203	4,904,203	4,979,203
<b>SOLDIERS, SAILORS AND MARINES' FUND [2]</b>					
Beginning Balance	60,947,047	60,178,925	59,301,639	58,385,713	57,428,917
Revenue	3,000,000	3,060,000	3,121,200	3,183,624	3,247,296
Expenditures	3,768,122	3,937,286	4,037,126	4,140,420	4,247,302
Ending Balance[3]	60,178,925	59,301,639	58,385,713	57,428,917	56,428,911
[2] Only interest on the fund is available for agency operations					
[3] Fund balance does not reflect change in market value					
<b>TOTAL</b>					
Beginning Balance	127,582,833	131,070,025	136,511,547	136,467,717	140,497,187
Revenue	172,487,867	177,260,000	179,871,200	187,433,624	186,797,296
Expenditures	169,000,675	171,818,478	179,915,030	183,404,154	186,956,854
Ending Balance	131,070,025	136,511,547	136,467,717	140,497,187	140,337,629

## V. Miscellaneous Fiscal Information

### Tax Credits, Exemptions and Deductions

Appendix A presents a listing of the tax credits, exemptions, and deductions and an estimate of the value of each item. The estimates were formulated using data extracted from Connecticut tax returns whenever possible. Other sources include federal and other state tax expenditure estimates, data from federal tax returns, and other applicable data for Connecticut and the nation.

Each estimate measures the impact of the provision in isolation, with economic conditions and other tax provisions held constant. Because each estimate measures the impact of the provision as it exists under current conditions it does not represent the fiscal impact if the provision was repealed. In many cases, the fiscal impact of repealing a provision would greatly differ from the estimate presented in Appendix A.

### Projected Bond Authorizations, Allocations and Issuances and Impact on Debt Service

#### Summary

The table below presents OFA's estimates for General Obligation (GO) and Special Tax Obligation (STO) bond authorizations for FY 06 through FY 10. The figures for GO bonds show that while bond allocations and bond issuance remain stable over the 5-year period, the expenditure on debt service gradually increases. This increase reflects the assumption that the state will issue GO bonds at higher interest rates over this period. For example, the state issued tax exempt GO bonds in December 2004 at an interest rate of 4.73% while the interest rate assumptions used for these projections range between 5.25% and 5.75%. The STO bond figures show increasing trends in the projections for authorizations, allocations, issuance and debt service. It should be noted that the STO debt service projections assume that bond issuances will be at higher interest rates over this period, which is consistent with the GO debt service projections.

<b>General Obligation and Special Tax Obligation Bond Projections FY 06 – FY 10</b>					
	\$ Billions				
	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>
<b>General Obligation (GO) Bond Projections</b>					
Bond Authorizations <sup>a</sup>	1.3	1.4	1.2	1.3	1.1
Bond Allocations <sup>b</sup>	1.0	1.0	1.0	1.0	1.0
Bond Issuance <sup>c</sup>	1.0	1.0	1.0	1.0	1.0
Debt Service <sup>d</sup>	1.2	1.3	1.5	1.6	1.7
<b>Special Tax Obligation (STO) Bond Projections</b>					
Bond Authorizations <sup>e</sup>	0.3	0.3	0.3	0.4	0.4
Bond Allocations <sup>e</sup>	0.3	0.3	0.3	0.4	0.4
Bond Issuance <sup>c</sup>	0.3	0.3	0.3	0.4	0.4
Debt Service <sup>c</sup>	0.4	0.4	0.5	0.5	0.5

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**General Obligation and Special Tax Obligation Bond Projections  
FY 06 – FY 10**

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<sup>a</sup> FY 06 and FY 07 figures are based on authorizations made during the 2005 legislative session. FY 08 - FY 10 projections are based on a 5 year average of bond authorizations adjusted for nonrecurring projects or expenses.

<sup>b</sup> The figures are based on a 5-year average of bond allocations adjusted for nonrecurring projects or expenses.

<sup>c</sup> The figures are based on information supplied by the Office of the State Treasurer.

<sup>d</sup> The figures are based on information supplied by the Office of the State Treasurer. OFA adjusted the projections to reflect anticipated debt service lapse for each year.

<sup>e</sup> The figures are based on authorizations made during the 2005 legislative session and information supplied by the Office of the State Treasurer.

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### **Further Explanation**

General Obligation (GO) bonds finance the construction of buildings, grants and loans for housing, economic development, community care facilities, school construction grants, state parks and open space. The revenue stream from the state's General Fund pays debt service on GO bonds.

Special Tax Obligation (STO) bonds finance the state's portion of the cost of highway and bridge construction and maintenance. The repayment source for STO bonds is a dedicated revenue stream from the state's motor fuels tax, motor vehicle registrations, licenses and fees.

The capital budget that is passed by the General Assembly each biennium is composed of individual bond authorizations that indicate: (1) the state agency receiving the funds, (2) a description the purpose for which the funds will be used and (3) the amount of funds for the designated purpose. Bond authorizations can be thought of as enabling legislation.

Bond allocations: For an agency to actually commit funds for a project, the bond funds authorized for the project must be allocated. This means that the State is prepared to finance the costs associated with implementation of the next phase of the project. The State Bond Commission (SBC) has statutory responsibility for the allocation process. The SBC is primarily an Executive Branch commission and is currently composed of ten members: the Governor, the Treasurer, the Comptroller, the Attorney General, the Secretary of OPM, the Commissioner of Public Works and the Senate and House Chairmen of the Finance, Revenue and Bonding Committee and the ranking members of the Committee.

Bond issuance: Bonds are issued by the Office of the State Treasurer several times each year. The issuance schedule is planned in accordance with estimates of the scale and pattern of capital expenditures. The overall pattern of expenditure flows from the capital budget approved by the General Assembly and the flow of individual projects approved for issuance by the State Bond Commission.

Debt service is the amount of money paid by the state each year for (1) interest and principal on outstanding debt and (2) fees related to debt.

## **Efforts to Obtain Federal Funds**

Efforts to obtain federal funds appear to be proceeding in accordance with levels anticipated in the budget. The federal government has approved the state plan amendment and waiver to allow a provider tax on nursing home services (6% of gross patient care services revenue). As a result, nursing homes will receive a \$260.4 million Medicaid rate increase, largely financed through \$139.2 million from these tax revenues and \$118.6 million from increased Medicaid reimbursement.

## **Analysis of Possible Uses of Surplus Funds**

Under Article 28, Section 18(c) of the Connecticut Constitution, any unappropriated General Fund surplus is first transferred to the Budget Reserve Fund (BRF) to raise the balance to 10% of net General Fund appropriations. Additional surplus must be used to reduce reduction of bonded indebtedness. A currently inoperative section of the statutes<sup>1</sup> requires that after the transfer to the BRF, any additional surplus must be used to reduce the unfunded pension liability in the State Employees Retirement Fund by up to 5% of unfunded prior service liability, followed by the reduction of bonded indebtedness.

The resources of the Budget Reserve Fund are invested in the Short Term Investment Fund (STIF.) The rate of return on this fund over the last 10 years is 4.25%. The average rate of return for the State Employees Retirement Fund and the Teachers' Retirement Fund over the last 10 years is 8.9%. The average interest rate for General Obligation bonds is currently about 4.5%. Assuming that transfers to the BRF continue to be the first priority for unappropriated General Fund surplus, the use of any remaining surplus to reduce the unfunded liability of the State Employees Retirement Fund and/or the Teachers' Retirement Fund appears to yield the most positive long term benefits to the state.

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<sup>1</sup> The constitutional amendment became effective 11/25/92 while CGS Sec. 4-30a became effective 6/10/92. Because the effective date of Article 28, Section 18(c) is more recent than CGS Sec. 4-30a, the constitutional amendment controls use of unappropriated General Fund surplus and renders inoperative the portion of CGS Sec. 4-30a that transfers surplus to the pension fund.

## Appendix A – State Tax Expenditure Summary

The table below summarizes state tax expenditures over \$100,000 and provides estimates for the value of each.

<b>Summary of Major Identifiable State Tax Expenditures <sup>1</sup></b>	
(In Millions)	
	<u>Annual Estimate</u>
<b>Personal Income Tax</b>	
Interest on US Obligations	\$50.0
Dividends from Mutual Funds Derived from US Govt Obligations	5.0
Refunds of State and Local Income Taxes	30.0
Tier I Railroad Retirement Benefits	0.5
Beneficiary's share of Connecticut fiduciary adjustment	1.0
Gain on sale of Connecticut Bonds	0.5
Social Security Benefits	35.0
Other Deductions	10.0
Credit for Property Taxes Paid	275.0
<b>Total Personal Income Tax</b>	<b>\$407.0</b>
<b>Sales and Use Tax</b>	
<u>Consumer Goods</u>	
Sales of Food Products for Human Consumption	\$275.0
Items Purchased with Federal Food Stamps Coupons	1.0
Oxygen, Blood Plasma, Prostheses, Wigs, Hearing Aids, Crutches, Walkers, Wheel Chairs, Life Support Equipment, Apnea Monitors, Chairlifts, and Relate Repair Services, Reading Aids, Canes, and Support Hoses	10.0
Prescription Medicines, Syringes and Needles	200.0
Non-prescription Drugs and Medicines	15.0
Disposable Pads for Incontinence	0.5
Smoking Cessation Products	0.2
Sales to Title XVIII or XIX of Social Security Act or CHAMPUS	20.0
Clothing Under \$50.00	120.0
Cloth or Fabric Purchased for Non-Commercial Sewing	0.5
Sales Tax "Free Week"	3.0
Fuel for Heating Purposes	100.0
Certain Utilities Sales	5.0
Water Companies Purchases	4.0
Motor Vehicle Fuel	175.0
Newspapers and Magazines	60.0
The first \$2,500 of Burial or Cremation Services; Caskets	3.6
Bicycle Helmets	0.2
Child Car Seats	0.5
College Text Books	1.1
Passenger Cars 40 MPG Highway or greater recheck	0.1
Sub Total Consumer Goods	\$994.7

<sup>1</sup> Estimated identifiable revenue reductions of \$100,000 or more.

## Summary of Major Identifiable State Tax Expenditures <sup>1</sup>

(In Millions)

	<u>Annual Estimate</u>
<u>Business and Agricultural Exemptions</u>	
Machinery Used in Manufacturing	\$100.0
Component Parts for Assembly of Manufacturing Machinery	10.0
Production Materials	10.0
Partial Exemption for Materials, Tools, Fuels, Machinery and Equipment used in Manufacturing	3.0
Replacement Parts in Enterprise Zones	0.7
Agriculture Production	5.0
Commercial Fishing	5.0
Aircraft Repair, Replacement Parts; Aircraft Repair Services; Materials, Tools, Fuel, Machinery and Equipment used in an Aircraft Manufacturing Facility	5.0
Commercial Trucks, Trailers and Combination, and Commercial Vehicles used in Inter-State Business	10.0
Motor Buses used in Inter-State Business	0.2
Aviation Fuel	2.0
Printed Material Sent Out of State	2.0
Commercial Printing	5.0
Typesetting, Color Separation and Finished Copy	0.5
Waste Treatment and Air Pollution Facilities	5.0
Motion Picture, Video, TV and Radio Production & Broadcast Equipment	2.0
Lease of Rental of Motion Pictures by Theater Owners	2.0
Motion Picture Leasing or Rental	0.5
Computer Related Cleaning Equipment	0.3
Mold, Dies, Patterns and Sand Handling Equipment for Metal Casting Foundries	0.3
Mold, Dies Patterns for Pattern shops and Metal Casting Foundries	0.3
Safety Apparel	2.5
Commercial Photographic Film and Paper Processing Materials	0.2
Biotechnology	3.5
Connecticut Resource Recovery Authority	3.0
Solid Waste to Energy Facilities	0.2
Fuel Cell Manufacturing Facility	0.1
Sub Total Business and Agricultural Exemptions	\$178.3
<u>Service Exemptions</u>	
Drug Testing Services	\$3.0
Personnel Services; Marketing, Development, Testing or Research Services; Business Services in Joint Ventures	2.0
Services Between Parent Companies and Subsidiaries	30.0
Computer and Data Processing	58.0
Certain Sales of Computer and Data Processing Services	0.3
Calibration and ISO Services	0.2
Sale of Repair or Maintenance on Vessels	3.0
Renovation & Repair for Residential Property	15.0

## Summary of Major Identifiable State Tax Expenditures <sup>1</sup>

(In Millions)

	<u>Annual Estimate</u>
Patient Care Services	10.0
Tangible Property Purchased by For-Profit Hospitals	0.5
Leased Employees & Professional Contract Employees	0.2
Motor Vehicle Parking	2.5
Car Washes	1.0
Amusement and Recreation Services	0.3
Massage Therapist and Electrology Services	0.3
Sales Agent Services	2.0
Advertising	20.0
Tax Preparation	4.0
Winter Boat Storage	0.3
Training Services	0.3
Non-Cable Communication Services	0.1
Sub Total Service Exemptions	\$153.0
<u>Non-Profit Organization Exemptions</u>	
Children's Hospital and the John Dempsey Hospital	\$5.0
Sales to Nonprofit organizations (combined lease, labor, and goods)	700.0
Sales by Nonprofit Hospitals, Nursing Homes and Rest Homes	0.5
Pilot Tax Credit for E-Commerce Donations to Higher Education	4.0
Sub Total Government and Charitable Organizations	\$709.5
<u>Miscellaneous Exemptions</u>	
Motor Vehicles & Vessels Purchased by Non-Residents to use Out of State	\$30.0
Vessels Brought in to the State for Storage, Maintenance or Repair	0.5
Casual or Isolated Sales	0.5
Tax on Casual Sales of Motor Vehicles, Vessels, Snowmobiles & Aircraft	2.0
Mobile Homes and Pre-Fabricated Homes	0.5
Sub Total Miscellaneous Exemptions	\$33.5
<u>Items Subject to a Lower Sales Tax Rate or Basis</u>	
Sales of Vessels to Nonresidents	\$0.5
Trade-In of Certain Construction Equipment	0.5
Trade-In of Motor Vehicles, Snowmobiles, Vessels or Farm Tractors	40.0
Coupons and Discounts and Battery Deposits and Trade-Ins of Like Kind And Trade-In of Core Parts	45.0
Licensed Motor Vehicle Dealers	0.5
Sub Total of Items Subject to a Lower Sales Tax Rate or Basis	\$86.5
<b>Total of Sales and Use Tax</b>	<b>\$2,155.5</b>

## Summary of Major Identifiable State Tax Expenditures

(In Millions)

	<u>Annual Estimate</u>
<b>Corporate Business Tax</b>	
<u>Exemptions and Deductions</u>	
Income from Foreign Sales Corporations (FSC)	\$25.0
Foreign Insurance Companies	10.0
Railroad Companies	0.8
Political Associations	2.5
Electric Cooperatives	2.8
Alternative Energy System Companies	0.3
Aero-Derived Gas Turbine Systems	0.1
Regulated Investment Co and REITs	1.1
Unpaid Loss Reserve Adjustment for Non-Life Insurance Cos	1.0
Subchapter S Corporations	26.0
Domestic Insurance Companies	20.0
Passive Investment Companies	20.0
Dividends from DISC or FSCs	25.0
Net Operating Loss Carry-Forward	50.0
Net Capital Loss Carry-Over	65.0
Capital Gains from Sales of Open Space or Watershed Land	1.0
Sub Total Exemptions and Deductions	\$250.6
<u>Credits</u>	
Enterprise Zones	\$0.6
Apprenticeship Training	0.5
Low and Moderate Income Housing and Rental Housing Programs	4.0
Neighborhood Assistance Tax Credits	2.5
Vehicles Powered by Clean Alternative Fuels or Electricity	0.5
Research and Experimentation Expenditures	10.0
Research and Development Expenses	40.0
Employer Assisted Housing Credits	0.1
Small to Medium Sized Companies Capital Goods Expenditures (Mach & Equip)	3.0
Traffic Management Programs	0.1
Credit for Personal Property Tax Paid on Data Processing Equipment	35.0
Fixed Capital Investment Credit	60.0
Human Capital Investment Credit	3.0
Donation of Land to be Preserved as Open Space or Watershed Land	0.5
Sale of Certain Credits	15.0
Insurance Reinvestment Fund Credit	0.5
Sub Total Credits	\$175.3
<b>Total Corporate Income Tax</b>	<b>\$425.9</b>
<b>Succession Tax</b>	
Tax Incentive for Open Space Land	\$0.1
Class AA Exemption (Surviving Spouse)	90.0
Class A Exemption (Immediate Family)	105.0
Class B Exemption (Other Relatives)	20.0
Class C Exemption (All Others)	1.5
<b>Total Succession Tax</b>	<b>\$216.6</b>

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## Summary of Major Identifiable State Tax Expenditures

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(In Millions)

	<u>Annual Estimate</u>
<b>Gifts</b>	
Gifts under \$1 Million	\$0.3
<b>Public Service Companies Gross Earnings Tax</b>	
<u>Exemptions and Deductions</u>	
Sales for Resale	\$50.0
Earnings to Pay for Debt Service on Energy Securitization	1.7
Railroad Companies When Certified by DOT	2.0
Propane Gas Used as Motor Fuel	0.5
Gas and Electricity Used by Industrial Consumers (SIC 2000-3999)	10.0
Gas Sold to Facility with 775 MW of Capacity	5.0
Sub Total Exemptions and Deductions	\$69.2
Lowered Rate for Residential Utilities	\$5.0
<u>Credits</u>	
Credit for Personal Property Tax Paid on Data Processing Equipment	\$2.0
Credit for Rehabilitation of Historic Homes	0.5
Sub Total Credits	\$2.5
<b>Total Public Service Companies Gross Earnings Tax</b>	<b>\$76.7</b>
<b>Petroleum Companies Gross Earnings Tax</b>	
#2 Heating Oil used for Heating Purposes	\$40.0
Propane Used for Residential Heating	1.5
Bunker Fuel Oil, Intermediate Fuel, Marine Diesel Oil & Gas Oil	0.5
Kerosene Used for Residential Heating	0.5
Fuel Used in Vessels Engaged in Interstate Commerce	0.5
Fuel Used by Industrial Consumers (SIC 2000-3999)	0.4
DOT Contracted Service Stations Along State Highways	1.5
Credit for Sale to Resellers Located Outside the State	5.0
<b>Total Petroleum Companies Gross Earnings Tax</b>	<b>\$49.9</b>
<b>Insurance Premiums Tax</b>	
Ocean Marine Insurance	\$0.5
State Employee Health Plans	2.0
Medicaid, HUSKY and General Assistance	7.0
Credit for Personal Property Tax Paid on Data Processing Equipment	15.0
Credit for Rehabilitation of Historic Homes	0.5
Credit for HMOs Providing Coverage Through HUSKY A/B	14.5
Insurance Guaranty Fund Payments	1.0
Insurance Reinvestment Fund	4.5
<b>Total Insurance Premiums Tax</b>	<b>\$45.0</b>
<b>Cigarette and Tobacco Products Taxes</b>	
Tobacco Products Exported Out of State	\$10.0

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## Summary of Major Identifiable State Tax Expenditures

(In Millions)

	<u>Annual Estimate</u>
<b>Alcoholic Beverage Tax</b>	
Sales to United States Military	\$5.0
<b>Admissions and Dues Taxes</b>	
<u>Admission Tax</u>	
Charges less than \$1.00 and Movies less than \$5.00	\$3.0
Hartford Civic Center, New Haven Coliseum, New Britain Beehive Stadium, New Britain Veterans Memorial Stadium, Tennis Foundation, O'Neill Convocation Center, Stafford Motor Speedway, Thompson Speedway, Waterford Speedbowl, Bridgeport Harbor Yard Stadium, New Haven Ravens Games, Waterbury Spirit Games, New Britain Rock Cats Games, CT Expo Center	7.0
Nonprofit Theater or Playhouse, Gateway's Candlewood House and Ocean Beach Park	0.2
Carnival or Amusement Rides	0.1
Establishments subject to the Cabaret Tax before July 1, 1999	1.3
Sub Total Admissions Tax	\$11.6
<u>Dues Tax</u>	
Portion of Dues Used to Acquire Open Space Land	\$0.1
Club Locker Rentals	0.2
Sub Total Dues Tax	\$0.3
<b>Total Admissions and Dues Taxes</b>	<b>\$11.9</b>
<b>Motor Fuels and Motor Carrier Road Taxes</b>	
<u>Exemptions to Motor Fuels Tax</u>	
US Government	\$1.0
Municipalities, Transit Districts and the State	10.0
Fuel Distributors	711.0
Fuel Exported Out of State	113.0
Fuel Used for Heating	100.0
Alternative Fuels Used by Covered Fleets	0.5
Aviation Fuel	45.0
Sub Total Motor Fuels Tax Exemptions	\$980.5
<u>Refunds of Motor Fuels Tax</u>	
Vehicles not Operated on Public Highways	\$3.0
CT Motor Bus Companies and Other Livery Services	1.0
High-Occupancy Commuter Vehicles	0.5
Municipalities, Transit Districts, State, US Govt, and Ambulances	0.5
Farming	0.5
Meals on Wheels for Seniors	0.5
Sub Total Refunds of Motor Fuels Tax	\$6.0
Credit for Motor Carrier Road Tax on Motor Fuels Tax Paid in State	\$1.0
<b>Total Motor Fuels and Motor Carrier Road Taxes</b>	<b>\$987.5</b>
<b>Grand Total--Major Identifiable State Tax Expenditures<sup>1</sup></b>	<b>\$4,391.3</b>